

# Committee on Resources

## Full Committee

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### Witness Statement

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Testimony by the  
HOTEL ASSOCIATION  
OF THE NORTHERN MARIANA ISLANDS  
for the  
UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON RESOURCES  
Honorable Don Young, Chairman  
September 16, 1999  
Oversight Hearing

Dear Chairman Young and Committee Members:

The rights and privileges of the U.S. Commonwealth of the Northern Mariana Islands to control our own immigration, minimum wage, trade and tariff policies have enabled these islands to become self sufficient in just 21 years since the end of the United Nations Trusteeship Agreement. This has not been achieved without growing pains that have become the subject of congressional debate. However, a federal takeover of the Commonwealth's immigration and minimum wage -- a massive change of rules in the middle of the game -- will break industries, both large and small. It will be a nightmare for the islands of Saipan, Tinian and Rota, where the standard of living will plunge back 20 years or more. *U.S. Congress should not place the same restrictions and limits on the growth of tiny, isolated islands as it would a powerful country of 250 million people nearly half a world away.*

### **The Northern Marianas:**

#### **A Fragile Island Economy Jeopardized by the Asian Economic Crisis**

For the U.S. Commonwealth of the Northern Mariana Islands (CNMI), the past two years have been the worst in economic history since World War II ravaged the islands. Due to the Asian economic crisis, tourism, the leading industry is down over 30%. Many hotels -- particularly small, family-run operations -- are barely hanging on to their businesses. The community is reeling from an unprecedented downturn, which began suddenly and severely in late 1997.

With fewer tourist dollars circulating in the Northern Marianas, every segment of the economy is suffering. From 1995 to 1998, tourism-based employment decreased from 48.3% to just 34.5%. More than 1,300 companies did not renew their licenses from 1997 to 1998, resulting in a net business decline of 11%. Among the worst hit by the economic crisis, retail and auto sales have been cut nearly in half. The number of empty storefronts continues to grow at an alarming rate.

For the Northern Marianas, it was previously unimaginable that such a huge drop in tourism could occur over such short a time. In 1996, Saipan enjoyed an 85.6% average hotel occupancy rate -- healthy by any international standard. Today, even the largest 5-star resorts are suffering. Based on declining airline access from Japan, some travel agents are predicting that the island will see no greater than 43% hotel occupancy through the end of 1999. The Hotel Association of the Northern Mariana Islands (HANMI) has forecast a total occupancy in the low 50% range for the year. For many businesses, this is below the break-even point. Nearly every hotel has cut working hours and laid off employees. Some have temporarily closed blocks of hotel rooms in efforts to cut costs while waiting out the Asian economic crisis. (See Appendix A - Hotel Occupancy and Appendix B - 4th Quarter Arrivals Forecast.)

As the economy has declined, the public and private sectors have begun working proactively to capitalize on our islands' unique identity and strengths, identifying opportunities for diversification, and promoting more local hiring. These efforts will take time. However, the instability of the investment climate has become virtually impossible to manage with the threat of a potential federal takeover of immigration and minimum wage.

Meanwhile, the people of the Northern Marianas read the newspapers and watch TV reports about the robust American economy and the troubling crusade against our garment industry. Some feel it is a conspiracy fueled by unions. True or not, the media attacks on Saipan have reached a level of yellow journalism that has hurt us all.

The Hotel Association is not presenting this paper to defend the garment industry, although we are highly concerned that if that industry should leave, the entire community will suffer. Without garment exports, containers leaving Saipan will leave empty. For the hotels, the added cost of doing business will be immediate, as prices will rise and schedules will decline in the shipping industry.

### **A Tourist Economy Dependent on Japan**

The Hotel Association of the Northern Mariana Islands, representing 67% of the total 4,588 hotel rooms in the Northern Marianas, is just one part of a fragile industry that is almost completely dependent upon the economies of Japan and Korea. Members of the association employ 2,118 people or roughly only 3% of the total population of the CNMI. Of these, 39% are resident hires (U.S. citizens and Micronesians) and the balance -- 1,451 or 61% -- are contract foreign workers.

Since the hotel industry began 25 years ago, employees have been recruited from the Philippines and other nearby Asian countries out of necessity due to the fact that the small local population could not meet the demand for a skilled work force. Since many hotels were developed by Japanese investors marketing to Japanese tourists, many personnel in both the executive and semi-skilled positions were naturally recruited from Japan. Indeed the right of Japanese businesses to employ their own supervisors and managers was in fact agreed to under the *Treaty of Friendship, Commerce and Navigation between the United States and Japan* entered into force on October 30, 1953.

When the Asian economic crisis began, the outbound Korean and Japanese markets immediately declined both in the number of visitors and in what they spent abroad. Two years ago many Japanese travelers would dine in fine restaurants and fill their suitcases with designer goods to take home as gifts. Today it is not uncommon for visitors entering the CNMI to bring dried noodles to eat in hotel rooms.

This downtrend has also meant a declining pool of money to promote the Northern Marianas. The budget of the Marianas Visitors Authority, dependent upon hotel room occupancy tax and container tax revenues, has been cut from \$8.4 million in 1997 to just \$6 million this year. Less money to promote in Japan correlates to reduced market share for the CNMI -- from 3% down to just 2.4% of the 15.8 million Japanese who traveled overseas in 1998.

In this time of recession in Japan when many destinations are competing to attract more of a declining outbound travel market, we wonder what the reaction will be if U.S. Congress takes over our immigration and the minimum wage. We'll be forced to scale down our staffs, reduce the quality of service we offer, and raise prices at precisely the same time we most need to be competitive. Additionally, what will happen if Japanese employees of the Japanese hotels and travel companies on Saipan are mandated to return home to be replaced by American mainland workers from 6,000 miles away -- or Micronesian subsistence farmers and fisherman who have no training nor ability to speak the language of visitors?

The Hotel Association of the Northern Marianas cannot predict when the Asian economic crisis will end, nor when the visitors will return. But we do know this: if the CNMI loses control of its immigration and we lose our ability to hire skilled workers to run our hotels and travel-related businesses, there will be no recovery of this industry for the foreseeable future. The fragile connection of marketing to the Japanese -- and to a lesser extent the Korean market -- is something the Northern Marianas has been good at managing in the past. But the message of a potential federal takeover of immigration and minimum wage has already damaged our business climate and begun drying up investment here.

The hotel industry is a captive one. Japanese, Korean and American investors have spent over a billion dollars developing resorts and family-run hotels which cannot be abandoned. Behind the swimming pools and landscaped gardens are elaborate infrastructure systems, built with private funding to include fully capable power and water desalination plants, necessary to bring fresh drinking water to guests.

The travel industry of Japan, however, doesn't have to promote Saipan. They can open and close representative offices at will. If the CNMI becomes more expensive as a destination and we lose our quality of service, the Japanese can easily choose Guam or other non-dollar-based destinations.

## **What is the Difference in Operating a Hotel Business on Saipan**

### **Compared to Guam?**

In the debate over immigration control and minimum wage, we are often asked, "If Guam can do it, why can't the CNMI?" Our economy is vastly different than our neighbor to the south, an island with four times the U.S. citizen population and the major hub of transportation, shipping and telecommunications for the region. Guam has been a part of the American political family for more than 100 years -- the CNMI only 21 years.

Since World War II, Guam has enjoyed the multiplying benefits of thousands of high-paying federal jobs and many millions of dollars in infrastructure improvements made through the U.S. military presence. Guam

has grown with military investment; the CNMI's economy has grown due to private enterprise.

With the exception of wages, virtually every cost of operating a hotel is more expensive on Saipan than on Guam due to smaller economies of scale, shipping costs and inadequate infrastructure. While some Guam hotels have invested in backup power generation capability for emergencies, hotels on Saipan have always had to be fully self-sufficient from the time they opened because local infrastructure could not meet the demand. Many Saipan hotels are still 100% reliant on their own in-house water and power-generating capabilities. The cost of water desalinization and power plants has ranged as high as \$3 million per resort hotel, with more than \$800,000 in annual maintenance costs and specialized personnel to run the equipment. On Guam, hotels can simply get water from the tap.

The cost of goods and building materials is at least 15% higher in the CNMI than Guam due to the added shipping costs. For the island of Rota, shipping costs are virtually double. Most ships stop at Guam first and are then transshipped to Saipan by weekly barges. At great inconvenience to the CNMI's visitors, most flights on the way to Saipan lay over first at Guam's newly expanded \$300 million airport.

Another significant factor in recovering the cost of investments is that most businesses cannot own the land they are built on. On Guam anyone can own land; in the CNMI, land ownership is restricted to people of Northern Marianas descent and businesses can only lease land. Construction costs are high due to smaller economies of scale in importing building materials.

### **How Does Guam Meet Work Force Requirements and Why Can't the CNMI?**

A larger local population, including many American military families, makes it easier for Guam hotels to find both full and part-time employees. Indeed the ratio of hotel rooms to the citizen population of Guam is 1 to 18, while in the CNMI, it is only 1 to 8.

A significant number of the people working in the tour and travel companies on Guam are Okinawans or Japanese-speaking Filipinos married to U.S. military personnel. The past 50 years of having military bases with personnel frequently traveling between Okinawa and Guam have resulted in multinational families and as such, have helped the tourism industry labor pool. Saipan has had no such advantage.

In Guam, a Manpower Development Fund provides millions annually in training people for the trades. The CNMI has no programs to compare to this. The Northern Marianas College continues to question how they'll even meet the payroll as its budget has declined with the economy. College officials reported just this month that less than a handful of students were enrolled in the tourism program, and more classes would be canceled in the fall.

In comparison, Guam has been able to attract many people from Saipan and Micronesia who come to the island to attend the University of Guam. In many cases their families come with them and as a result, a large pool of people are available to work in hotels.

### **Could the CNMI Fulfill its Employment Needs from Micronesia?**

The *Compact of Free Association* allows Micronesians to immigrate to the CNMI and they are considered "local" for purposes of hiring. Approximately 10% of the Hotel Association's total work force are Micronesians.

There are currently 140,000 people living in Micronesia, where the median age is only 17.8. This leaves very few people of legal employment age. The vast majority of Micronesians engage in subsistence living. Mandatory education in the Federated States of Micronesia carries its citizens only through the eighth grade level. The minimum wages paid to the small number of hotel workers of these islands start at only 90¢ per hour in Kosrae, to \$1.50 in Pohnpei, to a high of \$2.50 per hour in the Republic of Palau.

Recruitment from the neighboring islands of Micronesia has been utilized with some success, although most people come with no job skills. It may help in understanding the hiring of Micronesians to give an example of a hotel in Guam: in 1990, the Palace Hotel experimented with recruiting 200 unskilled Micronesians. The Palace brought these people to Guam for intensive hospitality training. After providing for their housing, food, uniforms, and medical care for several months, the hotel discovered the sad truth: most of the training time was spent not in teaching job skills, but in basic hygiene and other skills that would help them cope with living in a developed society. By the end of the program, 75% had returned home or left to work for other businesses. Currently less than 20 people remain from that original staff. Other Guam hotels learned from the example and no recruitment program of this magnitude has been attempted since.

Significant social impacts and costs to local governments have become the subject of regional controversy as more Micronesians have migrated to Saipan, Guam and Hawaii to join their employed family members. Unlike the typical Asian worker who remits most of his money home, the paychecks of Micronesian workers are often utilized to bring family members to live with them. Those who don't work enjoy all the rights of U.S. citizens to utilize the maximum of food stamps, health and educational facilities, and other government services.

Micronesian leaders have stated that they are concerned about the "brain drain" of the best and brightest workers leaving their islands and the impact this is having on their own development. Preliminary discussions regarding mass recruitment from Micronesia have taken place between the Hotel Association of the Northern Mariana Islands and other regional business and educational organizations. These discussions have indicated that if Saipan were to phase-out its alien work force and suddenly need to recruit nearly 25,000 workers from Micronesia, a regional economic and social crisis would occur.

### **Can the Hotels Train and Hire Locally?**

A priority for HANMI and our individual hotels has been to develop programs to train and hire more local people. However, there simply aren't enough workers available locally to keep hotel businesses operating around the clock, 365 days a year. From chefs to busboys, to power plant technicians, to accountants, entertainers and marketing experts, jobs in the hotel industry cross a wide spectrum.

In an effort to improve professional standards in the human resources function and keep businesses apprised of local and federal employment laws, the Hotel Association organized the Society for Human Resources Management, a chapter of the American organization by the same name. HANMI is also a member of the American Hotel & Motel Association, which gives member hotels access to nationally produced training materials. Additionally, the association has established an education fund, which will be used for scholarships and other training. We are currently working with the University of Las Vegas, Hospitality and Tourism Industry Management School on specific programs for our islands' students. Each hotel has its own on-the-job training programs as well.

But scholarships and training aren't the only issues when the work force simply isn't there. One economist has calculated that it would take until the year 2065 for there to be enough local people of working age to

fulfill every job that existed in the Northern Marianas as of the year 1995.

A sensitive issue and another problem for private sector employers is the local work ethic. During the Japanese administration of Saipan prior to WWII, indigenous citizens were limited to an elementary school education. This followed with years of isolation, federal control and subsidy after WWII. When the Northern Marianas were finally opened to visitors and foreign investment, a boom in the tourism industry began. In the 1980's, many local people became wealthy overnight after leasing their land. This left a generation of young people uncertain about the need to work.

The poor work ethic, adversity to manual labor, and shyness in serving others has handicapped the ability of many indigenous people to be successful in the private sector. Regardless of wage rates, very few indigenous citizens will work in food and beverage, a critical area of the hospitality business. It is essential that hotels have access to employees with a service-oriented mentality. While the downturn in the economy will eventually contribute to the perceived value of stable employment, attitudes will take years to change.

### **Could the CNMI Tourism Industry Continue to Operate**

#### **Under the Tight Restrictions of the U.S. Immigration & Naturalization Act?**

Without enough local people to fulfill the need for private sector employees, one of the most significant problems that the CNMI's tourism industry would have if the U.S. I.N.A. system were to be mandated here is that hotel and tourism jobs are not temporary. The U.S. labor certification process lists 49 occupations in the Code of Federal Regulations, Title 20 for which the U.S. department of Labor has determined that there are, "... sufficient U.S. workers who are able, willing, qualified and available to work." Therefore, I.N.S. will not allow certification for permanent employment of aliens for these occupations. These are virtually all of the jobs in the tourism industry.

For example, a prohibition on Category 3, "Attendants or Service Workers" will eliminate half of the Saipan-based personnel of the Japanese travel agencies and ground handling companies. We worry about the harsh message this will send to the Japanese management of these companies, which bring roughly 90% of the Japanese tourists to our islands. Although Americans may be, "able, willing and qualified" to work in this category, how will these companies afford to recruit Americans for entry level or semi-skilled jobs from the U.S. mainland? If the CNMI is mandated to hire outside of the region, recruitment costs will skyrocket. In turn, if the cost of doing business escalates during the Asian economic crisis, there will be no way we can pass these costs on to our visitors without completely losing our marketability as a destination.

In our remote location, it is only economically feasible to recruit from the nearest area with a sizable population, and that is Asia. Even if hotels were to attempt recruitment from the U.S. mainland, it is highly unlikely that large numbers of people would be "ready, willing and able" to leave homes and families for entry-level jobs. Furthermore, a round trip ticket from West Virginia or Alaska -- the states of the highest unemployment in the nation -- cost approximately \$2,600 to Saipan. It is unlikely that employers could undertake such great expense and risk for anything less than managerial positions.

### **The CNMI Cannot Raise Wages in the Midst of a Recession**

U.S. Congress is considering numerous bills to raise the minimum wage on the U.S. mainland. These bills indiscriminately include the CNMI, which could mean an immediate 84% jump in our minimum wage, 102% by September 2000. This does not include local benefit mandates.

It is false to assume that \$3.05 an hour, the legal minimum wage of the CNMI, is not a "living wage." A wide variety of locally mandated benefits -- including 100% health care coverage and employer-provided housing -- ensure that employees are well provided for. Many foreign contract workers are able to remit anywhere from 50% to 90% of their income back home to greatly better the standard of living of their families. (See appendix D.) It would indeed be rare for any minimum wage earner in the United States to be able to save such a huge portion of their income.

In more prosperous times several years ago, the Hotel Association of the Northern Mariana Islands supported local legislation that would require a gradual increase of 30¢ per year until the CNMI reached the U.S. minimum wage. This gave businesses ample opportunity to plan ahead. However, at this time when we must reduce costs in order to survive, a mandated wage increase would mean that hotels would be forced to reduce staff even further than we already have. This will translate to further decline in the quality of service we can offer and therefore as stated previously, less competitiveness as a destination. For this reason, we do not support an increase in the minimum wage at this time.

The CNMI must have the local flexibility to determine what appropriate wages are given our unique economic circumstances. We feel that a locally based committee, such as our own Minimum Wage Review Board is best equipped to do so.

### **Let the CNMI Continue its Own Path to Economic Maturity**

The free market economy of the Northern Mariana Islands is a living, breathing thing. If the laws are too tight, we must loosen them. If they are too loose, they must be tightened. We have this necessary flexibility with local authority over our own immigration and minimum wage.

We expect that the intentions of the various pieces of legislation are to help clean up immigration problems of the past. However, we must respectfully disagree with the approach of a complete takeover, which will not solve the problems. A more flexible solution given the uniqueness of this island economy would be to provide federal assistance, resources and possibly oversight to local control.

In conclusion, the people, businesses and government of the CNMI have the commitment to correct our own problems and are in a better position to know the needs of the Northern Marianas community. Our local government has made significant reforms and has the continuing flexibility to make adjustments as the economy ebbs and flows.

Last year when we testified before the U.S. Senate on these same issues, we had asked for the federal government's assistance in enforcement; however, we feel that the approach the federal agencies took was more to find faults and capitalize on how to attract negative media attention. We ask for genuine assistance by federal agencies in cooperation with our local counterparts to enforce applicable statutes, similar to the successful relationship between local and federal drug enforcement agencies.

The CNMI is in the midst of what could be called an economic depression. Our economy is closely tied to Asian economic conditions. When Asia recovers, we expect tourism to recover. However, U.S. policies that are rooted in a strong, robust American economy have no relevance at this time and will only cripple our efforts. If the economy collapses because of S. 1052, will U.S. Congress come back prepared to subsidize our government and rebuild our industries at an acceptable free market economic pace?

Rather than an outright takeover, let's approach this properly to build a supportive working relationship --

one without hidden agendas. In cooperation between the CNMI and federal agencies, help us enforce the laws rather than seeking problems to capitalize on. Only through a cooperative and focused approach can we accomplish real solutions.

Respectfully submitted,

HOTEL ASSOCIATION OF THE  
NORTHERN MARIANA ISLANDS

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